

12th Weekly Crisis-era Message to Contractors from: Dr Tom Schleifer
The Potential and Timing of Recovery

The US economy will recover as will the construction market. They always have. That was true during the 2009-2012 recession but it didn't prevent nation-wide losses in the construction industry. Knowing that the construction market will rebound is not much help in planning for or managing through it. What IS NEEDED is to know how long it will last because there is a big difference in the impact of a 4-month and a 14-month downturn. How to plan for it and what actions to take would certainly be different.

During the deep and lengthy 2009-2012 construction market downturn, I consulted with a number of construction firms that were struggling with reduced sales and having serious financial difficulty. Every contractor I was involved with said the same thing in one form or another, *"If I only knew the market was going to get so bad I could have done something about it"* or *"I would have done things differently"*. During a meeting with one contractor, I said, *"You were at one of the seminars where I explained that the data collected in an extensive research project and the business models developed clearly indicated the construction industry was entering a deep and lengthy market decline"*. Without hesitation he looked me straight in the eye and said, *"I didn't believe it"*. Granted there is no guarantee that research projections are 100% accurate just like there is no guarantee that any of us will be here tomorrow, but we still plan our day.

As construction professionals we have no choice but to gather all the data and information we can, make objective evaluations, and develop short and long-term strategies and plans for our businesses. We need to collect information continually and adjust our plans accordingly. Key to this process is objectivity, and to maintain objective it is critical to keep emotions out of the process. What I have observed is that trust in data and information is often influenced by feelings and emotions—to the extent that it is not so much not believing the information as it is NOT WANTING to believe what we don't want to see happen.

It is 12 weeks since the pandemic has put the economies of the world on hold which simultaneously suspended some construction projects, delayed others, and caused cancelations. Obviously, none of us were prepared because this had never happened before. In short order it became apparent that the entire world was affected and the selected defense against the virus was to stay away from each other, effectively shutting down major portions of the economies of every country in the world. Also, because this never happened before, we had little choice but to listen to those in authority and the *"V shaped"* recovery was coined. This provided short-lived comfort until it became apparent that this was not a short-term event.

In week 2 of this weekly message series it was stated that the *90-day timeframe*, popularized in the news, was off the table because the construction market would not likely return to pre-crisis size this year. The 4th message explained that few construction firms could sustain their existing overhead if the downturn lasted more than six months. The 5th and 6th messages reported no end-in-sight and the 7th suggested that confidence in stimulus funding fixing the construction market was overly optimistic given the long-term outlook described in the message. Week 8 warned of the cost and impact on productivity of the newly required work-site protocols and weeks 9, 10, and 11, presented ongoing developments that continued to push the recovery farther out.

Why do I keep repeating this? Because all the major downturns since WWII started the same way. They were supposed to be short until there weren't. Good news sells, optimism is the preferred attitude, and

there are some short-term benefits to looking on the bright side. In the first year of the 2009-2012 construction market disaster I had a widely published article outlining the economic fundamentals that indicated we were facing a deep and lengthy construction market decline. Several construction associations advised that they could not send this kind of negative information to their membership. One called and asked *"if I could lighten it up a little"*.

To assist readers in deciding for themselves how much longer this construction market decline will last, here is a sampling of the continuing ripple effect and latest developments affecting the economic disturbance we are experiencing.

Economic Developments:

- 30% of unemployed in US don't think their jobs will be there
- Mortgage delinquency rate doubled in one month
- Travel demand essentially zero according the President of United Airline
- American Airline plans to cut 30% of its staff
- 90% of the museums on the planet closed, 13% may never open
- Hertz the largest car rental co. bankrupt--20,000 out of work
- Major League baseball teams may each lose as much as \$100 mil this year
- Universities nationwide concerned that enrolment may drop as much as 20%
- Consumer spending cut by half

Construction Related Developments:

- 30% of construction firms surveyed furloughed or terminated employees
- All states but SD suffered a decline in construction employment
- NY state construction workforce is down by 40%
- CA with no statewide shutdown, dropped by 15%
- Orlando Airport is considering reducing the scope of it'd \$4.2 bil project
- A \$1bil FL resort project and a \$420 mil halted
- Disney cuts \$900 mil from construction budget
- Convention Centers nationwide delaying or canceling projects
- State DOTs furloughing and laying off, stopped planning construction projects

The US economy and the construction market will recover. Some contractors will not. Research indicates that the only defense is using the information available to you to estimate how long you believe this downturn will last and develop a plan for how your firm will get from here to there. Prudence suggest you include a cushion in case it goes longer. My calculations indicate that the construction market will not return to 2019 volume in 2021.

Next week: The dynamics, mechanics, and the pattern of a construction market downturn.

To assure you will continue to receive the free weekly Crisis Message to Contractors, you will need to send your email address to tom@schleifer.com.

Note: Information on overhead management can be found on letstalkbusiness.net click on "Manual" and go to Managing Overhead in the table of contents.